
AUDIT REPORT



COSHOCTON METROPOLITAN HOUSING AUTHORITY SECTION 8 HOUSING PROGRAM

COSHOCTON, OHIO

2003-CH-1010

MARCH 21, 2003

OFFICE OF AUDIT, REGION V
CHICAGO, ILLINOIS



Issue Date	March 21, 2003
Audit Case Number	2003-CH-1010

TO: Patricia Knight, Acting Director of Troubled Agency Recovery Center, Cleveland
Field Office

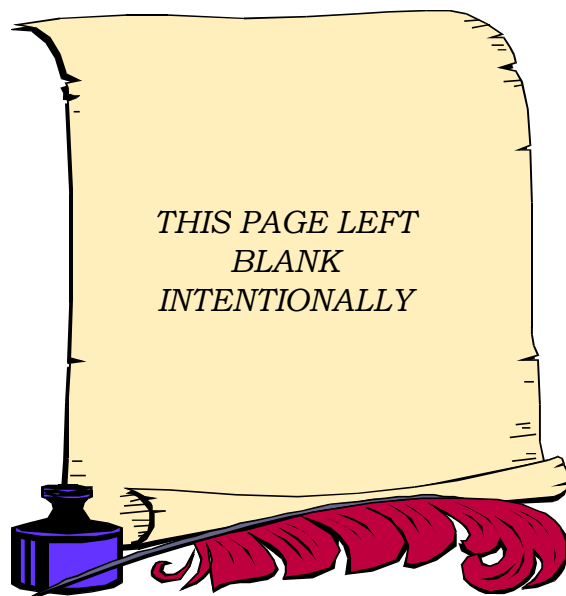
FROM: 
Heath Wolfe, Regional Inspector General for Audit, Region V

SUBJECT: Coshocton Metropolitan Housing Authority
Section 8 Housing Program
Coshocton, Ohio

We completed an audit of the Coshocton Metropolitan Housing Authority's Section 8 Housing Program. Our audit of the Housing Authority's Section 8 Housing Program was conducted as part of a comprehensive review of the Authority. The comprehensive review was performed based upon a request from HUD's Columbus Field Office Coordinator of Public Housing Program Center. The objective of the audit was to determine whether the Housing Authority managed its Section 8 Program efficiently and effectively. The audit resulted in three findings.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact Ronald Farrell, Senior Auditor, at (614) 469-5737 extension 8279 or me at (312) 353-7832.



Executive Summary

We completed an audit of the Coshocton Metropolitan Housing Authority's Section 8 Housing Program. Our audit was conducted as part of a comprehensive review of the Housing Authority. The objective of our audit was to determine whether the Housing Authority managed its Section 8 Program efficiently and effectively. The audit was performed based on a request from HUD's Columbus Field Office Coordinator of Public Housing Program Center.

The Housing Authority's management controls over its Section 8 Housing Program were weak. The Authority lacked adequate procedures and controls over Housing Quality Standards and administrative processes.

Section 8 Units Had Health And Safety Violations

The Housing Authority's Section 8 units contained health and safety violations. A HUD Construction Analyst inspected a sample of 34 Section 8 units. A total of 521 Housing Quality Standards' violations were found in 33 of the 34 (97 percent) Section 8 units inspected.

Section 8 Utility Allowances Were Not Reviewed Or Adjusted

The Housing Authority did not review or adjust its Section 8 utility allowances. The Authority also lacked documentation to support how its Section 8 utility allowances were determined. Federal regulations require housing authorities to document how utility allowances are determined and to review the allowances annually to determine whether adjustments are needed.

Rent Reasonableness Procedures Need To Be Improved

The Housing Authority did not follow HUD's regulations or its Section 8 Administrative Plan regarding rent reasonableness. Specifically, the Authority did not properly complete rent reasonableness certifications for Section 8 units placed under contract and did not maintain adequate records of market rate units for rent reasonableness comparisons.

Recommendations

We recommend that HUD's Acting Director of Troubled Agency Recovery Center, Cleveland Field Office, assure that the Authority implements procedures and controls to correct the weaknesses cited in this report.

We presented our draft audit report to the Housing Authority's Executive Director and HUD's staff during the audit. We held an exit conference with the Authority's Executive Director on February 20, 2003. The Housing Authority agreed with the audit report's findings.

We included paraphrased excerpts of the Housing Authority's comments with each finding (see Findings 1, 2, and 3). The complete text of the Authority's comments is in Appendix C.

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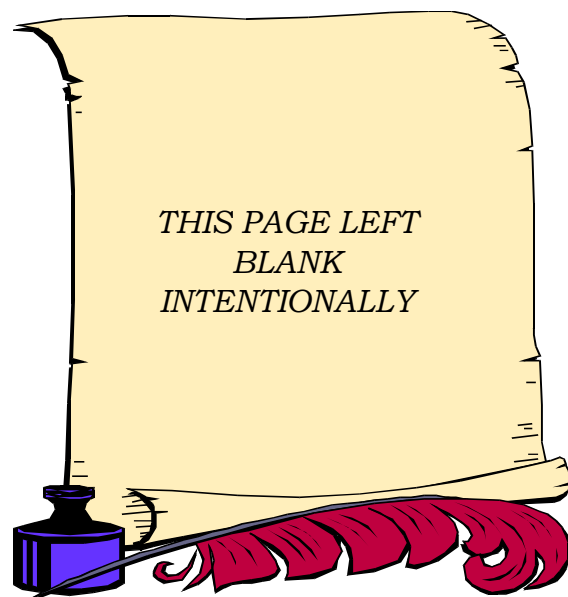
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Introduction

The Coshocton Metropolitan Housing Authority was established under Section 3735.27 of the Ohio Revised Code. The Authority contracts with HUD to provide low and moderate-income persons with safe and sanitary housing through rent subsidies. A five member Board of Commissioners governs the Authority. The Chairman of the Board is R. Dale Smith. During the audit, the Authority's former Executive Director Edward Ross resigned effective June 1, 2001. The Authority's current Executive Director is Gregory Darr. The Authority's books and records are located at 823 Magnolia Street, Coshocton, Ohio.

As of November 2002, the Authority's Section 8 Program consisted of 253 housing units.

Audit Objective

The audit objective was to determine whether the Housing Authority managed its Section 8 Housing Program efficiently and effectively.

Audit Scope And Methodology

We conducted the audit at HUD's Columbus and Cleveland Field Offices, and the Authority's Office. We performed our on-site work between March 2001 and May 2002.

We interviewed the following to accomplish our audit objectives: HUD's staff; the Authority's staff and tenants; and utility companies' customer service representatives.

We analyzed the Housing Authority's: tenant files; Board meeting minutes; audited financial statements; rent rolls; and its policies and procedures. We also reviewed: HUD's files for the Authority; Parts 5, 882, 965, and 982 of Title 24 of the Code of Federal Regulations; HUD Handbook 7420.7; Section 8 of the Consolidated Annual Contributions Contract for Rental Certificate and Rental Voucher Programs; and Section 3735.37 of the Ohio Revised Code.

We used Computer Assisted Audit Techniques, including ACL computer application, during our audit to analyze the Housing Authority's Section 8 unit information obtained from the Authority's automated accounting system. A HUD Construction Analyst performed Housing Quality Standards inspections of 34 of the Authority's Section 8 units.

The audit covered the period January 1, 1999 to April 20, 2002. This period was adjusted as necessary. We conducted

the audit in accordance with Generally Accepted Government Auditing Standards.

We provided a copy of this report to the Authority's Executive Director and its Chairman of the Board of Commissioners.

Section 8 Units Had Health And Safety Violations

The Coshocton Metropolitan Housing Authority's Section 8 Housing units contained health and safety violations. A HUD Construction Analyst inspected a sample of 34 of the Authority's Section 8 units selected using ACL computer software application. A total of 521 Housing Quality Standards' violations were found in 33 of the 34 (97 percent) Section 8 units inspected. The violations existed because: (1) the Authority's Housing Inspector lacked adequate training; (2) quality control reviews of inspections were untimely or not performed; and (3) the Authority's management failed to exercise supervision and oversight over their inspections. As a result, the Authority's tenants were subjected to conditions that were hazardous to their health and safety, and HUD's funds were not used efficiently and effectively.

HUD's Requirements

24 CFR Part 982.1(a) requires that Section 8 housing units be decent, safe, and sanitary. 24 CFR Part 982.401(a)(1) states Section 8 housing units must comply with HUD's Housing Quality Standards, both at initial occupancy of the unit and during the term of the assisted lease.

24 CFR Part 982.152(d) permits HUD to reduce or offset any Section 8 administrative fee to a housing authority, if the authority fails to perform its administrative responsibilities adequately, such as not enforcing HUD's Housing Quality Standards.

HUD Handbook 7420.7, Public Housing Authority Administrative Practices Handbook, page 5-27, states housing authorities must establish procedures for reviewing a sample of the completed Section 8 housing unit inspections. A re-inspection by a supervisor of a random sample of five percent of the approved units is required.

The Authority's Requirements

Chapter 10 of the Housing Authority's Section 8 Administrative Plan, dated February 2000, states a unit inspection is required when a tenant moves into a unit and annually thereafter. HUD's Housing Quality Standards apply to the building and premises, as well as the housing unit. Units must pass the Housing Quality Standards inspection. Section K of Chapter 10 of the Plan requires quality control inspections by the Authority's Program Coordinator, or a delegate, on at least five percent of the units inspected by

Sample Selection And
Inspection Reports

each Housing Inspector. The purpose of quality control inspections is to determine whether the Authority's Housing Inspectors are conducting accurate and complete inspections, and to ensure there is consistency among Housing Inspectors in applying Housing Quality Standards.

We selected a statistical sample of the Authority's Section 8 housing units using Computer Assisted Audit Tools, including ACL computer software application. A statistical sample of 35 Section 8 housing units was selected from 141 Section 8 units inspected by the Authority between January and July 2001. The units were selected to determine whether the Housing Authority assured its Section 8 units met HUD's Housing Quality Standards.

During August and September 2001, a HUD Construction Analyst inspected the 34 Section 8 units. We were unable to inspect the remaining Section 8 unit because the tenant was not available. The Authority declined our invitation to have one of its staff accompany us during the Section 8 housing inspections because no one was available.

We provided the inspection results to HUD's Director of the Cleveland Field Office of Public Housing Hub and the Authority's Executive Director. The inspection results were subsequently provided to HUD's Cleveland Field Office of the Troubled Agency Recovery Center when the Authority was designated as a troubled housing authority in January 2003.

Section 8 Units Contained
Health And Safety
Violations

Five hundred twenty-one health and safety violations existed in 33 (97 percent) of the Authority's 34 Section 8 housing units inspected. Through the HUD Construction Analyst's inspections and our interviews with tenants, we determined that 519 of the 521 violations existed at the time of the Authority's last Housing Quality Standards inspection. The following is a list of the violations by category.

<i>Category of Violations</i>	<i>Number of Violations</i>
Electrical Hazards	82
Lead-Based Paint	57
Windows	54
Smoke Detector	41
Security	39
Floors	21
Interior Stairs/Common Halls	17
Walls	17
Lead-Based Paint On Exit Surfaces	16
Neighborhood/Site	14
Stairs/Railings/Porches	13
Ceilings	11
Other Interior Hazards	10
Roofs/Gutters	9
Tub/Shower	9
Electricity	8
Heating Equipment Safety	8
Exterior Surfaces	8
Sink	8
Heating Equipment Adequacy	7
Ventilation/Cooling Adequacy	7
Fixed Wash Basin or Lavatory In Unit	7
Evidence Of Infestation By Rodents/Insects	6
Sewer Connection	6
Range/Stove With Oven	6
Electricity/Illumination	5
Interior Air Quality	5
Water Heater	4
Chimney	4
Refrigerator	4
Foundation	3
Other Potentially Hazardous	3
Ventilation	3
Security	2
Flush Toilet In Enclosed Room	2
Other	<u>5</u>
Total	<u>521</u>

Electrical Hazards

Eighty-two electrical hazard related violations were in 30 of the Authority's Section 8 housing units inspected. The following items are examples of electrical violations: broken

light switches; outlets with open grounds; inoperable electrical outlets; missing or broken cover plates; fixtures not mounted correctly; exposed wires; and loose outlets.

For example, the laundry room in the Authority's Section 8 housing unit at 651 Elm Street had a broken cover plate and exposed wires. Both conditions are considered unsafe and hazardous especially since three children under the age of 10 live in this housing unit. The following pictures provide examples of the electrical hazards.

Unsafe wiring and broken cover plate with exposed wires in the Section 8 unit located at 651 Elm Street.



No cover plate and the outlet box were loose in the Section 8 unit located at 452 South 3rd Street.



Lead-Based Paint

Fifty-seven lead-based paint violations existed in 17 of the Authority's Section 8 housing units inspected. Lead-based paint was found on window frames, entry doors, windowsills, wall trims, baseboards, and exterior of Section 8 units inspected.

The living room windowsill contained lead-based paint in a Section 8 unit occupied by a family with three children from the age of four months to five years old. The following pictures provide examples of the problems with lead-based paint violations.

Finding 1

Lead-based paint was found on the living room windowsill of the Section 8 unit located at 2189 Cambridge Road.



The dining room window frame of the Section 8 unit at 1406 Orchard Street contained lead-based paint that was flaking.



Windows

Fifty-four window related violations were present in 16 of the Authority's Section 8 housing units inspected. The following items are examples of window violations: windows not fully secured; windows with loose, damaged, or rotted frames; a window replaced with plywood; window weather stripping seal damaged; window locks not working properly; severely cracked window glass; and gaps in the window frame and glass. The following pictures are

examples of the window related violations identified in the Authority's Section 8 housing units inspected.

The window and the frame were loose and falling out in the Section 8 unit at 305 Locust Street.



Severely broken window glass and the window are falling out of the frame in the Section 8 unit at 27491 County Road 1.



HUD Funds Were Not Used Efficiently And Effectively

24 CFR Part 982.152(d) permits HUD to reduce or offset any Section 8 administrative fee paid to the Housing Authority, if the Authority fails to enforce HUD's Housing Quality Standards. The Authority earned \$5,927 in Section 8 administrative fees for the 33 Section 8 housing units that did

Causes For Deficiencies

not meet HUD's Housing Quality Standards. The Authority also used \$26,414 of Section 8 Housing Program funds from HUD for tenant rental subsidies when the 33 Section 8 housing units did not meet HUD's Housing Quality Standards.

The numerous Housing Quality Standards violations existed due to weaknesses in the Housing Authority's Section 8 Housing inspection process. The violations existed because: (1) the Authority's Housing Inspector was not provided adequate training; (2) quality control inspections of the Authority's Section 8 housing units were not done effectively and timely; and (3) the Authority's management did not exercise supervision and oversight over their Housing Inspector.

The Authority's Housing Inspector had not received adequate and updated training on HUD's Housing Quality Standards. The Housing Inspector for the Section 8 housing units attended a basic Housing Quality Standard training course approximately seven years ago. He said he had not received any additional extended training or been provided any updated training by the Authority. Without adequate training, the Authority's Housing Inspector could not ensure that tenants lived in units that met HUD's and the Authority's requirements.

As of January 2002, the Authority's Section 8 Coordinator had not completed a quality control inspection of any Section 8 housing units since July 2000. Quality control reviews provide assurance that only those units meeting HUD's Housing Quality Standards are approved for tenant occupancy. HUD requires the Authority to conduct quality control inspections for at least five percent of all units inspected.

The Authority's management did not exercise adequate supervision and oversight of their Section 8 Housing Program. The Authority's Section 8 Coordinator said he knew it was his responsibility to conduct quality control reviews of the Housing Inspector's inspections. However, the Authority's management failed to monitor their Coordinator's performance and recognize that he had not performed any reviews since July 2000. The Authority's Section 8 Coordinator said he was aware that quality control

reviews needed to be done, but said he did not have time to do them.

As a result of the problems discussed above, the Housing Authority's Section 8 tenants were subjected to conditions hazardous to their health and safety, and Section 8 housing units were not decent, safe, and sanitary. HUD also lacks assurance that the Housing Authority used its Section 8 Housing Program funds efficiently and effectively.

Auditee Comments

[Excerpts paraphrased from the comments provided by the Housing Authority's Executive Director on our draft audit report follows. Appendix C, pages 33 and 34, contains the complete text of the comments for this finding.]

Recommendation 1B requires that the Housing Authority must reimburse HUD from non-Federal funds for the Section 8 administrative fees and Housing Assistance Payments collected when the Section 8 housing units did not meet HUD's Housing Quality Standards. This request will be impossible as the Housing Authority's income source is limited to all Federal funding such as Public Housing Operating Assistance, Section 8 Choice Voucher Assistance, Capital Fund Program, Contract Administrative Fees earned for administering Federal Section 8 Project-Based Housing Assistance Payments, as well as potential administrative fees earned from the Public Housing Drug Elimination and Tenant Opportunities Programs. The other source of funds for repayment consideration would be from the Housing Authority's employee dishonesty insurance claim with its insurer.

In October 2001, the Housing Authority's new administration sent letters to each landlord of the 34 units requesting immediate repair and/or replacement of the items noted during the Office of Inspector General's inspections. Follow-up visits were conducted to insure proper corrections were made as requested. Reasonable time extensions past 30 days were granted based upon information regarding timeliness and budget constraints to accomplish the balance of the necessary work. If landlords did not wish to make the necessary repairs, then their properties were eliminated from the Section 8 Program by default.

The Authority contracted for the services of a housing inspector effective November 1, 2001. As of March 1, 2002, the Authority hired a Housing Inspector with 17 years of experience. Ongoing training will be provided to keep the Housing Inspector current with HUD's standards. The Housing Inspector's expertise and customer service improved the Authority's Section 8 housing stock.

OIG Evaluation Of
Auditee Comments

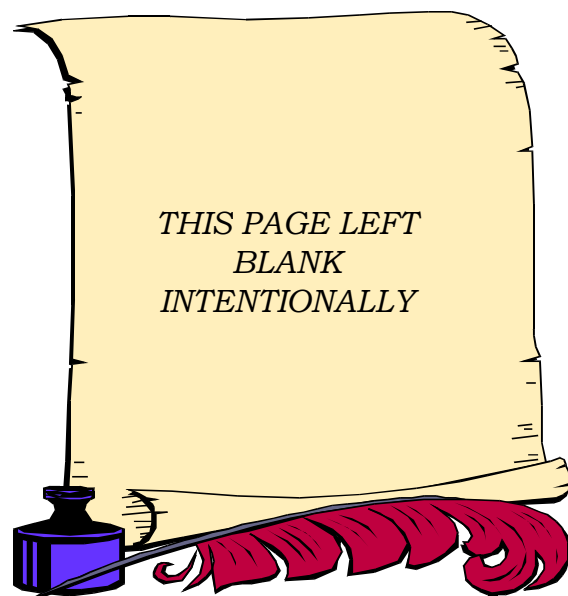
The Housing Authority inappropriately received \$5,927 in Section 8 administrative fees and \$26,414 in Housing Assistance Payments for Section 8 housing units that did not meet HUD's Housing Quality Standards. Therefore, the Authority should reimburse HUD a total of \$32,341 from non-Federal funds. While the Housing Authority's income source is limited to Federal funds at this time, the Housing Authority earns administrative fees from administering Section 8 Project-Based Housing Assistance Payments as well as its own Section 8 Tenant-Based Housing Assistance Payments. These administrative fees can be used to reimburse HUD. In addition, the Housing Authority could use any funds recovered by its insurance carrier as well as management fees it may earn in the future as a management agent for a multifamily project for which the Board of Commissioners is associated.

The actions taken by the Authority, if fully implemented, should ensure that its Section 8 housing units meet HUD's Housing Quality Standards. However, the Authority must ensure that regular quality control reviews of completed inspections for its Section 8 Housing Program units are conducted as required by HUD's and the Authority's requirements. In addition, the Authority should implement supervisory procedures and controls to ensure that its management monitors the quality of its Section 8 Housing inspection program.

Recommendations

We recommend that HUD's Acting Director of Troubled Agency Recovery Center, Cleveland Field Office, assure that the Coshocton Metropolitan Housing Authority:

- 1A. Ensures the owners of the 33 Section 8 housing units cited in this finding repair the Housing Quality Standards violations in their units.
- 1B. Reimburses HUD \$32,341 from non-Federal funds for the Section 8 administrative fees collected by the Authority (\$5,927) and the Housing Assistance Payments (\$26,414) improperly made for the Section 8 housing units that did not meet HUD's Housing Quality Standards.
- 1C. Ensures that the Authority's Housing Inspector(s) receives the necessary training to perform the Housing Quality Standards inspections in accordance with HUD's requirements.
- 1D. Conducts regular quality control reviews of completed inspections for its Section 8 Housing Program units as required by HUD's and the Authority's requirements to ensure that all violations are cited.
- 1E. Implements supervisory procedures and controls to ensure its management monitor the quality of its Section 8 Housing inspection program.



Section 8 Utility Allowances Were Not Reviewed Or Adjusted

The Coshocton Metropolitan Housing Authority did not review or adjust its Section 8 utility allowances. The Authority also lacked documentation to support how its current utility allowances were determined. HUD's regulations require housing authorities to document how utility allowances are determined and to review the allowances annually to determine whether adjustments are needed. The Authority's Section 8 Coordinator said he knew the utility allowances were not updated. He said he did not have the time and assistance to complete a utility allowance update. As a result, HUD and the Housing Authority lack assurance the utility allowances were appropriate.

HUD's Regulations

24 CFR Part 965.502(a) requires public housing authorities to establish allowances for resident-purchased utilities. Part 965.502(b) requires public housing authorities to maintain records that document the basis on which allowances are established and revised. 24 CFR Part 965.507(a) requires public housing authorities to review at least annually the basis on which utility allowances are established and, if necessary, establish revised allowances.

Housing Authority's Requirement

The Authority's Section 8 Administrative Plan for the existing Certificate and Voucher Programs dated February 22, 2000, Section O of Chapter 1, requires that records and reports will be maintained for the purpose of demonstrating that the Authority analyzed utility rates locally to determine if there was a change of 10 percent or more since the last time the utility schedule was revised.

Sample Selection Of Utility Allowances Reviewed

We selected a statistical sample of the Authority's Section 8 housing units using Computer Assisted Audit Tools, including ACL computer software application. The sample was obtained from a universe of 141 Section 8 housing units inspected by the Authority between January 2001 and June 2001. This resulted in a sample size of 35 units. We selected the units to determine whether the Authority's utility allowances were appropriate.

Gas Utility Allowances Were Not Analyzed For 16 Months

The Authority's current Section 8 gas utility allowances were not reviewed or revised since July 1999. To determine whether the Authority's current gas utility allowances were sufficient, we contacted: Columbia Gas of Ohio; the Public

Utilities Commission of Ohio; 17 Section 8 tenants; and 21 Section 8 property owners. Columbia Gas provided a 12-month average gas utility cost for 21 Section 8 housing units. For the remaining 14 units in our sample selection of 35, 13 units had tenants who either did not pay for gas service or did not have gas service. Columbia Gas could not provide any records for the remaining one unit.

Based on the yearly average of gas cost rates for 1996 through 2001 provided by the Public Utilities Commission of Ohio, we determined that there was a rate increase of 34 percent for 2000 and a rate increase of 26.2 percent for 2001. The Authority's Section 8 Administrative Plan requires the Authority to analyze utility rates locally to determine if there was a change of 10 percent or more since the last time the utility schedule was revised. As previously mentioned, the Authority had not revised its gas utility allowances since July 1999. The average gas cost rate for a specific year is available to the public in November of each year. Therefore, the Authority should have revised its gas utility allowances in January of 2001 and 2002.

The following table includes: the Authority's Section 8 bedroom size; street address; monthly average gas cost per Columbia Gas; and the Authority's current monthly gas utility allowance.

Bed-Room Size	Section 8 Unit Address	Monthly Average Cost Per Columbia Gas	Monthly Gas Allowance From The Authority
1	154 South 8 th Street	\$50	\$28
1	918 Main Street	65	28
1	618 Main Street	58	28
1	700 North 15 th Street	37	21
1	651 ½ Elm Street	41	28
2	651 Elm Street	90	49
2	945 South Lawn Avenue	60	49
2	1218 Cemetary Drive	53	49
2	600 Plainfield Road #201	40	35
2	884 Beech Street	33	32
2	305 Locust Street	67	28
2	452 South 3 rd Street	79	49
2	216 East Railroad Street	66	38
3	442 Cambridge Road	100	49
3	2006 State Route 751 Apartment #2	41	32
3	418 North 9 th Street	62	60
3	1006 Oak	68	60
3	1406 Orchard Street	78	60
3	631 South 7 th Street	97	49

The Housing Authority's Section 8 Coordinator was responsible for managing the Authority's Section 8 Program. He said he was aware that utility allowances were not updated. The Coordinator said he thought if utility allowances were updated and increased, it would require the landlords to charge less for rent, because the rents that include the utility allowance might exceed HUD's fair market rents. The reduced rental income might limit the number of landlords interested in the Section 8 Program. The Authority's Section 8 Coordinator said he lacked the time and assistance to complete a utility allowance update.

Electric Utility Allowances Were Not Analyzed For 16 Months

The Authority's current Section 8 electric utility allowances were not reviewed or revised since July 1999. To determine whether the Authority's current electric utility allowances were sufficient, we contacted: American Electric Power; the Public Utilities Commission of Ohio; 17 Section 8 tenants; and 21 Section 8 property owners.

American Electric Power provided the average yearly electric utility cost for 34 of the Authority's 35 Section 8 housing units in our sample selection. American Electric Power could not provide any records for one unit. Using the information provided by American Electric Power, we calculated an average electric utility cost for the 34 Section 8 units. Based upon the average electric utility cost compared to the Authority's electric utility allowances, we determined that 24 Section 8 tenants had allowances that were insufficient.

The following table includes: the Authority's Section 8 bedroom sizes; addresses; monthly average electric costs per American Electric Power; and the Authority's current monthly electric utility allowances.

Bed-Room Size	Section 8 Unit Address	Monthly Average Cost Per American Electric Power	Monthly Electric Allowance From The Authority
1	170 Park Avenue	\$22	\$ 0
1	918 Main Street	28	18
1	618 Main Street	35	18
1	317 ½ North 8 th Street	20	18
1	700 North 15 th Street	42	31
1	651 ½ Elm Street	33	18
2	651 Elm Street	60	23
2	945 South Lawn Avenue	50	23
2	1218 Cemetary Drive	57	23
2	820 Grandview Avenue	50	23
2	600 Plainfield Road #201	60	23
2	884 Beech Street	65	42
2	305 Locust Street	64	35
2	2598 South Lawn	62	42
2	716 South 8 th Street	45	23
2	452 South 3 rd Street	45	23
2	216 East Railroad Street	36	18
3	442 Cambridge Road	80	52
3	2006 State Route 751 Apartment #2	52	42
3	418 North 9 th Street	50	28
3	1006 Oak	62	28
3	1406 Orchard Street	54	28
3	2189 Cambridge Road	54	52
3	631 South 7 th Street	41	23

The Authority Lacked
Records To Support Its
Established Utility
Allowances

As previously mentioned, the Authority did not review its utility allowances annually as required. HUD's regulations require the Authority to maintain records that document the basis that utility allowances were established and revised. In addition to HUD's regulations, the Authority's Section 8 Administrative Plan requires the Authority to maintain records and reports to demonstrate that it analyzed utility rates to determine if there was a change of 10 percent or more since the last time the Authority's utility allowances were revised.

The Authority's Section 8 Coordinator and its Public Housing Manager said they completed the annual review and updated the Authority's Section 8 utility allowances in July 1999. However, they said they could not explain how the utility allowances were established or provide documentation to support the allowances. As a result, HUD and the Authority lack assurance that the Section 8 utility allowances were appropriate.

Auditee Comments

[Excerpts paraphrased from the comments provided by the Housing Authority's Executive Director on our draft audit report follows. Appendix C, page 35, contains the complete text of the comments for this finding.]

The Housing Authority agrees that the finding is accurate through 2001. However, the Authority's new administration did appropriately review and adjust utility allowances and will continue to do in the future.

OIG Evaluation Of
Auditee Comments

The actions taken by the Authority should correct the problems identified in this finding. However, the Authority still needs to implement procedures and controls that ensure utility allowances are reviewed annually and adequate documentation is maintained to support the calculation of the allowances as required by HUD's regulations.

Recommendations

We recommend that HUD's Acting Director of Troubled Agency Recovery Center, Cleveland Field Office, assure that the Coshocton Metropolitan Housing Authority:

- 2A. Implements procedures and controls to ensure Section 8 tenant's utility allowances are reviewed annually and to maintain documentation to support how the allowances are calculated as required by HUD's regulations.
- 2B. Conducts utility allowance reviews to cover the period between January 2000 and May 2002.

Rent Reasonableness Procedures Need to Be Improved

The Coshocton Metropolitan Housing Authority did not follow HUD's requirements or its Section 8 Administrative Plan regarding rent reasonableness. Specifically, the Authority did not properly complete rent reasonableness certifications for Section 8 housing units placed under contract and failed to maintain adequate records of market units for rent reasonableness comparisons. These deficiencies occurred because the Housing Authority did not provide oversight of rent reasonableness reviews and certifications. As a result, HUD and the Authority lack assurance that accurate rent reasonableness comparisons were performed and appropriate rents were paid for its Section 8 housing units.

HUD's Regulations

24 CFR Part 982.54(d)(15) requires a public housing authority to establish a method for determining that rents to Section 8 landlords are reasonable (initially and during the term of a Housing Assistance Payment contract).

Prior to April 2000, 24 CFR Part 982.503(a)(1) states a housing authority may not approve a lease until it determines that the initial rent to the owner is reasonable. Part 982.503(a)(2) states a housing authority must redetermine the reasonable rent: (i) before any increase in rent to an owner; (ii) if there is a five percent decrease in the published fair market rents in effect 60 days before the contract anniversary (for the unit size rented by the family) as compared with the fair market rent before the contract anniversary; or (iii) if directed by HUD. Part 982.503(a)(3) states a housing authority may also redetermine the reasonableness of rent at any other time. Beginning in April 2000, the previous citation was moved to 24 CFR Part 982.507. The subsections remain the same.

The Authority's Requirements

The Introduction of Chapter 11 of the Housing Authority's Section 8 Administrative Plan for the Existing Certificate and Voucher Programs dated February 22, 2000, states the Authority is responsible to ensure the rents charged by owners are reasonable based upon objective comparables in the rental market. The Authority will not approve a lease or execute a Housing Assistance Program payment contract until it determines the unit meets the minimum Housing Quality Standards and the rent is reasonable. Further, Section D states the Authority maintains a database, which

**Certifications Were Not
Accurate Or Completed**

includes data on unassisted units for use by staff in making rent reasonableness determinations.

The Housing Authority failed to properly perform rent reasonableness certifications. We selected 35 Section 8 files to review based upon a previous statistically selected sample of 35 Section 8 housing units using Computer Assisted Audit Tools. The sample was obtained using ACL computer software. Our sample was limited to units inspected by the Authority between January and July 2001. We selected the files to determine whether the Housing Authority properly performed the rent reasonableness certifications.

Of the 35 files reviewed, 34 files included a certificate of rent reasonableness. All 34 (100 percent) rent reasonableness certificates were missing information and contained discrepancies as the following table details.

Discrepancies Found	Number of Files With Discrepancies
Form was missing the type of unit on the certificate of rent reasonableness	13
Comparable unit not in database	11
Bedroom size on comparison made was incorrect	3
Comparison was made to contract rent versus gross rent	3
No comparable rent for similar type unit was completed on the certificate of rent reasonableness	3
Two different comparisons were used and two different types of structures	1
Total	<u>34</u>

The Housing Authority's Section 8 Coordinator is responsible for completing a rent reasonableness certificate at the time of initial lease. He is also responsible for ensuring that the certificate of rent reasonableness is filled out correctly and updated to reflect any changes. However, rent reasonableness comparisons were not supported, completed, or correct. As a result, HUD and the Authority lack assurance that Section 8 contract rents were reasonable and established properly.

Comparison Records Were Not Properly Maintained

The Authority did not maintain adequate records of market units for rent reasonableness comparisons. The Authority last updated its information used for determining rent reasonableness in 1999. The Authority uses an Excel spreadsheet containing approximately 178 unassisted housing units for use in performing rent reasonableness comparisons. The information is listed by unit bedroom size and includes the following number of units for comparison by bedroom size.

Unit Bedroom Size	Total Number Used In Spreadsheet
0	1
1	59
2	74
3	36
4	7
5	0
6	1
Total	<u>178</u>

The following should be included in the Authority's information: the date the information was received; unit location; unit address; contact person/agency and phone number; number of bedrooms; year the unit was built; type of structure; unit square foot; contract rent; utility allowance; gross rent; and whether the landlord/agency is a Section 8 Housing Program participant.

The Authority's rent reasonableness spreadsheet did not contain complete information regarding the units. The year built, square footage, utility allowance, and contract rent was not listed for all of the unassisted housing units. In addition, the Authority's certificate of rent reasonableness form did not include the square footage and number of bathrooms.

The Housing Authority's Section 8 Coordinator said he did not have time to update the information currently being used in determining rent reasonableness. As a result, HUD and the Authority lack assurance that rents charged by owners are reasonable based upon objective comparables in the rental market.

Auditee Comments

[Excerpts paraphrased from the comments provided by the Housing Authority's Executive Director on our draft audit report follows. Appendix C, page 36, contains the complete text of the comments for this finding.]

The Housing Authority agrees that the finding is accurate through 2001. The Authority contracted to produce the database relative to the multifamily housing rental units in the area. When the Authority received the database, no single family housing unit information was included. The Authority is attempting to obtain current data with minimal response from landlords. In addition to the Housing Authority's efforts, the Authority's Board of Commissioners executed a resolution to upgrade the MCS software package. The upgraded software provides the ability to maintain an independent database for rent reasonableness comparisons.

OIG Evaluation of
Auditee Comments

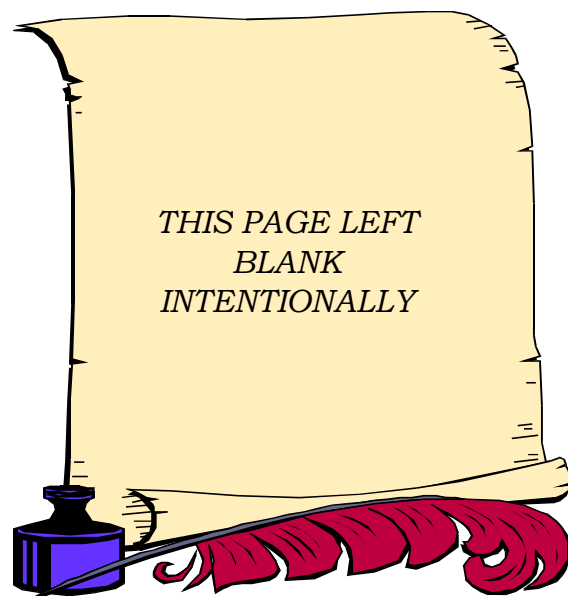
The actions taken by the Authority, if fully implemented, should ensure that its database meets the Federal requirements and its Section 8 Administrative Plan. However, the Authority needs to implement procedures and controls that ensure that rent reasonableness certifications and reviews are conducted according to Federal requirements and its Section 8 Administrative Plan.

Recommendations

We recommend that HUD's Acting Director of Troubled Agency Recovery Center, Cleveland Area Office, assure that the Coshocton Metropolitan Housing Authority:

- 3A. Implements procedures and controls to ensure that rent reasonableness certifications and reviews are conducted according to Federal requirements and its Section 8 Administrative Plan.
- 3B. Completes and updates the database used for determining rent reasonableness to include the year units were built, square footage of unit, contract rent, utility allowance, unit condition, and contract

rents as required by Federal requirements and its Section 8 Administrative Plan.



Management Controls

Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls

We determined that the following management controls were relevant to our audit objectives:

- Program Operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and Reliability of Data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed all of the relevant controls identified above during our audit of the Coshocton Metropolitan Housing Authority's Section 8 Housing Program.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

- Program Operations.

The Housing Authority was not operated according to Program requirements. Specifically, the Housing Authority did not: ensure its Section 8 housing units met HUD's Housing Quality Standards; ensure its Housing Inspector was properly trained; performed or timely performed quality control reviews of housing inspections; review and adjust its Section 8 utility allowances; properly complete rent reasonableness certifications for Section 8 units placed under contract; and maintain adequate records of market units for rent reasonableness comparisons (see Findings 1, 2, and 3).

- Validity and Reliability of Data

The Authority did not maintain accurate books of records regarding its Section 8 utility allowances and rent reasonableness comparisons (see Findings 2 and 3).

- Compliance with Laws and Regulations

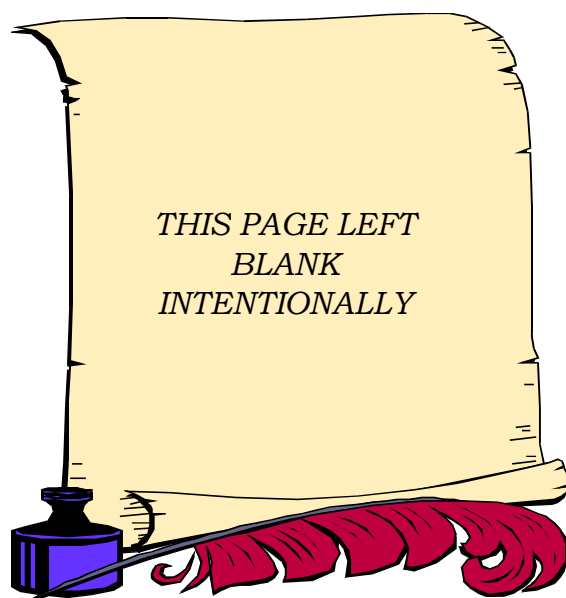
The Authority did not follow HUD's regulations regarding: health and safety violations for Section 8 housing units; Section 8 utility allowances; and rent reasonableness (see Findings 1, 2, and 3).

- Safeguarding Resources

The Housing Authority inappropriately earned \$5,927 in Section 8 administrative fees and paid \$26,414 in Housing Assistance Payments when Section 8 housing units did not meet HUD's Housing Quality Standards (see Finding 1).

Follow Up On Prior Audits

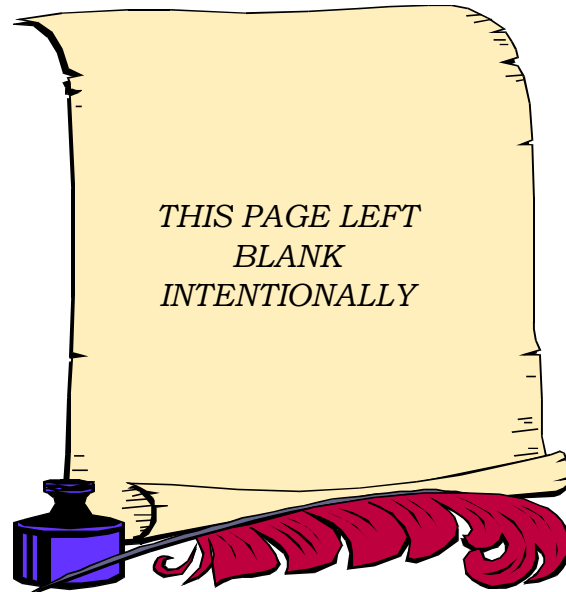
This is the first audit of the Coshocton Metropolitan Housing Authority's Section 8 Housing Program by HUD's Office of Inspector General. The latest Independent Auditor's Report for the Authority covered the period ending June 30, 2001. The Report contained no findings.



Schedule Of Ineligible Costs

<u>Recommendation</u>	
<u>Number</u>	<u>Ineligible Costs 1/</u>
1A	<u>\$32,341</u>
Total	<u>\$32,341</u>

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law, contract, or Federal, State, or local policies or regulations.



Auditee Comments



The Coshocton Metropolitan Housing Authority

March 6, 2003

Mr. Edward Kim
Assistant Regional Inspector General for Audit
U. S. Dept of HUD-Office of Inspector General
200 North High Street – Room 334
Columbus, OH 43215

RE: OIG DRAFT AUDIT REPORT: SECTION 8 HOUSING PROGRAM

Dear Mr. Kim:

Coshocton Metropolitan Housing Authority has received draft audit findings for the audit period March, 2001 through May, 2002. We would like to make note that the audit ran for fourteen months due to the condition of the financial documentation or lack thereof. The draft findings were received nine months after the audit period. Our response time was limited to approximately 30 days of which limits our ability to comprise a substantial written response. Therefore, our response is completed with limited time and available information to make supportive comments.

Within the findings, it has been stated that Coshocton Metropolitan Housing Authority must repay, reimburse, or return funds with “non-Federal funds”. This request will be impossible as the Coshocton Metropolitan Housing Authority’s income source is limited to all Federal funding i.e., Public Housing, Operating Assistance; Section 8 Choice Voucher assistance; Contract Administrative Fees earned for monitoring Federal Section 8 Project Based HAP, and Capital Fund Improvements, as well as potential administrative fees earned from PHDEP and TOP grants. Other consideration to recapture the funds would only be from our employee dishonesty claim presented to Gallagher-Basset.

As of February 24, 2003 the Troubled Authority Recovery Center-North in Cleveland, Ohio has been assigned to our Housing Authority for ongoing assistance and improvement with the new administration.



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Finding #1 Section 8 units had health and safety violations.

In October, 2001, The Coshocton Metropolitan Housing Authority's new administration sent letters to each landlord reviewed in the 34 units requesting immediate repair/or replacement of the items noted from the OIG site visits. Follow-up visits were conducted to insure proper corrections had been made as requested. Reasonable extensions were granted based upon information regarding timeliness and budget constraints to accomplish the balance of work needed past 30 days. If landlords did not wish to participate in the revitalization initiative then the properties were deleted by default from the program.

The Coshocton Metropolitan Housing Authority contracted a fee arrangement with SBI Corporation/Broad Street Management, Inc. to gain immediate expertise of Pam Wurster and others to increase the inspection format toward HUD guidelines. The contract inspector began her reviews effective November 1, 2001 and ended when Kim Mills was hired to perform the function internally. Ongoing training will be provided to keep Kim Mills 17 years experience level up to HUD standards. Kim Mills joined the housing authority on an employment status as of March 1, 2002. Kim's expertise and customer service have improved the Section 8 housing stock tremendously.

Finding #2 Section 8 Utility Allowances Were Not Reviewed or Adjusted

The finding is true through 2001. However, the new administration did appropriately review and adjust utility allowances and will continue to do so as we move forward.

Finding #3 Rent Reasonableness Procedures Need to be Improved

This finding is true through 2001. The Coshocton Metropolitan Housing Authority contracted through the Danner Companies to produce their database relative to multifamily housing rentals in the County. Once we obtained this information we found that the Danner Companies database did not include any single-family dwellings. We have continued to strive to obtain current data with minimal response from landlords. In addition to our efforts to obtain this information, the Board of Commissioners executed a resolution for the purchase of upgraded MCS Visual software where the housing authority can maintain its independent database to satisfy the regulatory component of rent reasonableness.

Management Controls

Ongoing training to meet program operations viability, reliability and compliance will be provided to the ongoing staff as budget dollars permit.

Schedule of Ineligible Costs

Coshocton Metropolitan Housing Authority refers to our opening comments regarding ineligible fees, costs and potential of reimbursement.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Gregory J. Darr".

Gregory J. Darr
Executive Director

GJD/jn

cc: Tarc Team
Board of Commissioners

Distribution

The Honorable Susan Collins, Chairman, Committee on Government Affairs, 172 Russell Senate Office Building, United States Senate, Washington, DC 20510

The Honorable Joseph Lieberman, Ranking Member, Committee on Government Affairs, 706 Hart Senate Office Building, United States Senate, Washington, DC 20510

The Honorable Thomas M. Davis, III, Chairman, Committee on Government Reform, 2348 Rayburn Building, House of Representatives, Washington, DC 20515-4611

The Honorable Henry A. Waxman, Ranking Member, Committee on Government Reform, 2204 Rayburn Building, House of Representatives, Washington, DC 20515

Andy Cochran, Committee on Financial Services, 2129 Rayburn House Office Building, United States House of Representatives, Washington DC 20515

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Steve Redburn, Chief of Housing Branch, Office of Management and Budget, 725 17th Street, NW, Room 9226, New Executive Office Building, Washington, DC 20503

Linda Halliday (52P), Department of Veterans Affairs, Office of Inspector General, 810 Vermont Avenue, NW, Washington, DC 20420

Kay Gibbs, Committee on Financial Services, 2129 Rayburn House Office Building, United States House of Representatives, Washington DC 20515

Gregory Darr, Executive Director of Coshocton Metropolitan Housing Authority

R. Dale Smith, Chairman of the Board of Commissioners for Coshocton Metropolitan Housing Authority